
Ethel and James Flinn Foundation

**Financial Report
December 31, 2017**

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Independent Auditor's Report

To the Board of Directors
Ethel and James Flinn Foundation

We have audited the accompanying modified cash basis financial statements of Ethel and James Flinn Foundation (the "Foundation"), which comprise the modified cash basis balance sheet as of December 31, 2017 and 2016 and the related modified cash basis statement of income, expenses, and changes in net assets for the years then ended, and the related notes to the modified cash basis financial statements.

Management's Responsibility for the Modified Cash Basis Financial Statements

Management is responsible for the preparation and fair presentation of these modified cash basis financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of modified cash basis financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these modified cash basis financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the modified cash basis financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the modified cash basis financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the modified cash basis financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the modified cash basis financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the modified cash basis financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the modified cash basis financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of Ethel and James Flinn Foundation as of December 31, 2017 and 2016 and the changes in its net assets for the years then ended on the basis of accounting described in Note 2.

Emphasis of Matter

As described in Note 3, the modified cash basis financial statements include investments of approximately \$18 million and \$17 million (approximately 28 percent each of net assets) as of December 31, 2017 and 2016, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the investment managers.

To the Board of Directors
Ethel and James Flinn Foundation

Basis of Accounting

As described in Note 2, these modified cash basis financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

August 14, 2018

Ethel and James Flinn Foundation

Modified Cash Basis Balance Sheet

December 31, 2017 and 2016

	2017	2016
Assets		
Assets		
Cash (Note 2)	\$ 322,271	\$ 353,298
Investments (Note 3)	66,062,307	60,557,453
Total assets	<u><u>\$ 66,384,578</u></u>	<u><u>\$ 60,910,751</u></u>
Liabilities and Net Assets		
Liabilities	\$ -	\$ -
Net Assets - Unrestricted	66,384,578	60,910,751
Total net assets	<u><u>\$ 66,384,578</u></u>	<u><u>\$ 60,910,751</u></u>

Ethel and James Flinn Foundation

Modified Cash Basis Statement of Income, Expenses, and Changes in Net Assets

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Changes in Unrestricted Net Assets		
Income:		
Interest income	\$ 496,982	\$ 465,816
Dividend income	593,856	910,579
Mining royalties	242,525	134,925
Miscellaneous income	15	60
Realized gain on investments	2,436,701	3,044,390
Investment fees	<u>(47,542)</u>	<u>(44,820)</u>
Net realized income	3,722,537	4,510,950
Grants and expenses:		
Grants and grant-related expenses (Note 6)	2,688,972	2,516,665
Other administrative expenses	<u>691,923</u>	<u>715,208</u>
Total grants and expenses	<u>3,380,895</u>	<u>3,231,873</u>
Realized Income in Excess of Grants and Expenses	341,642	1,279,077
Change in Unrealized Market Appreciation (Depreciation)	<u>5,132,185</u>	<u>(277,598)</u>
Increase in Net Assets	5,473,827	1,001,479
Net Assets - Beginning of year	<u>60,910,751</u>	<u>59,909,272</u>
Net Assets - End of year	<u><u>\$ 66,384,578</u></u>	<u><u>\$ 60,910,751</u></u>

Ethel and James Flinn Foundation

Notes to Modified Cash Basis Financial Statements

December 31, 2017 and 2016

Note 1 - Nature of Business

Ethel and James Flinn Foundation (the "Foundation") was established in 1976 by "Peggy" W. Flinn to remember her parents, Ethel G. and James H. Flinn, and her brother, James "Jim" H. Flinn Jr., and to provide a means for family philanthropy. The Foundation was originally established as a charitable nonprofit corporation under Michigan laws and Sections 501(c)(3) and 501(a)(3) of the Internal Revenue Code, but was reclassified in 2005 as a private foundation under Section 501(c)(3). The Foundation received additional assets through 2008 upon the passing of the last family member, James "Jim" H. Flinn, Jr.

The Foundation is committed to improving the quality of life of children, adolescents, and adults with mental illness and emotional disturbance by improving the quality, scope, and delivery of mental health services. The Foundation uses its resources through research to develop, evaluate, and implement best practice treatment programs.

Note 2 - Significant Accounting Policies

Cash

The Foundation maintains a retail checking account to pay all operational and grant expenses. In addition, at December 31, 2017 and 2016, a small amount of cash was held in the investment account that had not been reinvested as of year end.

Investments

Money market investment funds are under the custody of fund managers and represent temporarily uninvested monies and short-term investments consisting of funds collected.

Investments in common and preferred stocks, bonds, U.S. Treasury bills, and mutual funds are carried at quoted fair value whenever available. The change in unrealized market appreciation is included annually in the modified cash basis statement of income, expenses, and changes in net assets. Realized gains and losses are recorded using specific identification of the assets sold.

The investment in iron mining property is carried at appraised value determined by independent third parties.

The alternative investments, composed primarily of hedge funds and limited partnerships that are not readily marketable, are measured at fair value, valued at net asset value per share as the practical expedient. The Foundation reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and significant assumptions used in determining fair value. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

Tax Status

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code. As a private foundation, the Foundation is subject to an excise tax on net investment income, including realized gains, as defined in the Tax Reform Act of 1969. Excise tax expense was \$12,893 and \$41,479 for the years ended December 31, 2017 and 2016, respectively.

Notes to Modified Cash Basis Financial Statements

December 31, 2017 and 2016

Note 2 - Significant Accounting Policies (Continued)

Modified Cash Basis of Accounting

The Foundation's modified cash basis balance sheet and modified cash basis statement of income, expenses, and changes in net assets are presented on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Under this basis, revenue other than unrealized gains and loss on investments is recognized when collected rather than earned, and expenses are recognized when paid rather than when incurred. Unrealized gains and losses on investments are reflected in the current period. Under the modified cash basis of accounting, grants payable and deferred compensation, which would be recognized under accounting principles generally accepted in the United States of America and may be material in amount, are not reflected in the accompanying financial statements. See Note 7 for the cash to accrual adjustments to comply with GAAP.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the modified cash basis financial statements.

Upcoming Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Foundation, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Foundation's year ending December 31, 2018 and thereafter and must be applied on a retrospective basis. The Foundation does not expect there to be any financial statement impact to the classification of net assets; however, management does expect the update will result in increased disclosures.

Subsequent Events

The modified cash basis financial statements and related disclosures include evaluation of events up through and including August 14, 2018, which is the date the modified cash basis financial statements were available to be issued.

Note 3 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the modified cash basis financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Ethel and James Flinn Foundation

Notes to Modified Cash Basis Financial Statements

December 31, 2017 and 2016

Note 3 - Fair Value Measurements (Continued)

The following tables present information about the Foundation's assets measured at fair value on a recurring basis at December 31, 2017 and 2016 and the valuation techniques used by the Foundation to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Foundation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Assets Measured at Fair Value on a Recurring Basis at December 31, 2017					
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Balance at December 31, 2017
Investments:					
Money market mutual funds - Short-term investments	\$ 498,498	\$ -	\$ -	\$ -	\$ 498,498
Common stock mutual funds - Domestic	18,877,878	-	-	-	18,877,878
Common stock mutual funds - Foreign	8,000,757	-	-	-	8,000,757
Fixed-income mutual funds - Domestic	11,303,215	-	-	-	11,303,215
Fixed-income mutual funds - Foreign	2,471,208	-	-	-	2,471,208
Multi-asset funds	6,483,844	-	-	-	6,483,844
Mining and natural gas rights	-	-	798,589	-	798,589
Hedge funds				7,049,325	7,049,325
Real estate and other				4,423,247	4,423,247
Private equity				6,155,746	6,155,746
Total assets	\$ 47,635,400	\$ -	\$ 798,589	\$ 17,628,318	\$ 66,062,307

Ethel and James Flinn Foundation

Notes to Modified Cash Basis Financial Statements

December 31, 2017 and 2016

Note 3 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2016				Balance at December 31, 2016
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	
Investments:					
Money market mutual funds - Short-term investments	\$ 331,844	\$ -	\$ -	\$ -	\$ 331,844
Common stock mutual funds - Domestic	14,721,998	-	-	-	14,721,998
Common stock mutual funds - Foreign	9,977,814	-	-	-	9,977,814
Fixed-income mutual funds - Domestic	10,211,263	-	-	-	10,211,263
Fixed-income mutual funds - Foreign	2,385,690	-	-	-	2,385,690
Multi-asset funds	5,622,405	-	-	-	5,622,405
Mining and natural gas rights	-	-	798,589	-	798,589
Real estate and other	-	-	-	4,337,386	4,337,386
Hedge funds	-	-	-	6,833,311	6,833,311
Private equity	-	-	-	5,337,153	5,337,153
Total assets	\$ 43,251,014	\$ -	\$ 798,589	\$ 16,507,850	\$ 60,557,453

The following table summarizes the valuation methods and inputs used to determine fair value at December 31, 2016 and 2017 for assets measured at fair value on a recurring basis using unobservable inputs (Level 3 inputs).

	Fair Value at December 31, 2017 and 2016	Valuation Technique	Unobservable Inputs	Weighted Average of Inputs
Assets - Mining and natural gas rights	\$ 798,589	Discounted cash flow	Estimated projected production Speculative interest rate Redemption of capital rate	\$699,393 - \$2,784,174 16% - 18% 3%

The most significant unobservable input used in the fair value measurement of the mining and natural gas rights is the estimated projected production. The estimated projected production could change significantly at any time due to cutbacks in production, change in demand, labor strikes, quality requirements, or other changes in mine planning. Significant increases or decreases in production could result in a significantly lower or higher fair value measurement.

The Foundation has processes in place to select the appropriate valuation technique and unobservable inputs to perform Level 3 fair value measurements. These processes include appraisals of the mining and natural gas rights properties. In addition, management attends the annual stockholders' meetings for the mining company in order to monitor performance. The Foundation cannot independently assess the value of these underlying positions through a public exchange or over-the-counter market; therefore, it utilizes a third-party investment manager to monitor, participate in fund manager calls, and obtain underlying financial information on the Level 3 investments.

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets. During the years ended December 31, 2017 and 2016, there were no realized or unrealized gains on Level 3 investments that have been recognized.

Investments in Entities that Calculate Net Asset Value per Share

The Foundation holds shares or interests in investment companies at year end whereby the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company.

Ethel and James Flinn Foundation

Notes to Modified Cash Basis Financial Statements

December 31, 2017 and 2016

Note 3 - Fair Value Measurements (Continued)

At year end, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	December 31, 2017	December 31, 2016		December 31, 2017	
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Hedge funds	\$ 7,049,325	\$ 6,833,311	\$ -	Quarterly	45 - 60 days
Real estate funds and other	4,423,247	4,337,386	-	Monthly - Quarterly	30 - 60 days
Private equity fund	6,005,364	5,337,153	3,637,031	N/A*	N/A*
Total	<u>\$ 17,477,936</u>	<u>\$ 16,507,850</u>	<u>\$ 3,637,031</u>		

*These funds are in private equity structures with no rights to redemption except under certain limited circumstances.

Hedge fund assets primarily consist of investments in funds of funds. The Foundation estimates the fair value of these investments based on the net asset values provided by the fund managers at year end.

Real estate and other investment assets primarily consist of investments in real estate, commodities and natural resource partnership funds. The Foundation estimates the fair value of these investments based on the net asset value provided by the fund manager at year end. The net asset value is based on appraisals of the underlying properties and the present value of future cash flows of mortgages receivable.

Private equity fund assets primarily consist of investments in partnerships. The Foundation estimates the fair value of these investments based on net asset values received monthly from the partnerships, as well as audited financial statements.

Note 4 - Lease Commitments

The Foundation entered into a lease with the Community Foundation for Southeast Michigan (CFSEM) effective December 1, 2012. The lease agreement required monthly payments ranging from \$1,520 to \$1,600 through November 30, 2017. After the expiration of the lease agreement, the lease continued on a month-to-month basis until a new agreement for new space was executed and effective on June 1, 2018. The total rent expense under this lease was \$19,200 for the years ended December 31, 2017 and 2016.

Future minimum lease rental payments under the agreement are as follows:

Years Ending December 31	Amount
2018	\$ 29,460
2019	36,835
2020	36,904
2021	36,973
2022	40,499
Thereafter	14,083
Total	<u>\$ 194,754</u>

Note 5 - Employee Benefit Plan

The Foundation sponsors a qualified 403(b) defined contribution plan for all of its employees. Total contributions to the plan were approximately \$40,700 and \$40,300 for the years ended December 31, 2017 and 2016, respectively.

Ethel and James Flinn Foundation

Notes to Modified Cash Basis Financial Statements

December 31, 2017 and 2016

Note 5 - Employee Benefit Plan (Continued)

The Foundation also sponsors a Section 457(b) plan effective January 1, 2017 to provide retirement benefits to the executive director. Contributions are discretionary, and no contributions were made during 2017.

Note 6 - Schedule of Grants, Contracts, and Contributions

The Foundation is a private foundation that distributes money for charitable, educational, and public welfare purposes. The detail of grants consisted of the following major initiatives for the years ended December 31, 2017 and 2016:

	2017	2016
Evidence-based Practices Programs		
(To implement best practice treatment programs)		
Children's Center of Wayne County	\$ 75,000	\$ 128,000
Christ Child Society of Detroit	75,000	75,000
City Connect, Inc.	100,000	-
Corner Health Center	-	98,000
Covenant House Michigan	-	62,000
Detroit Wayne County Mental Health Authority	75,000	75,000
Ennis Center for Children, Inc.	70,000	70,000
Hegira Programs, Inc.	81,000	81,000
Henry Ford Health System	271,000	275,000
Judson Center	75,000	-
Oakland Family Services	50,000	50,000
Pediatric Foundation of Michigan	60,000	-
Regents of the University of Michigan	225,000	-
Spectrum Child and Family Services	58,000	-
St. Joseph Mercy Ann Arbor	175,000	100,000
St. Joseph Mercy Health System	-	100,000
Starfish Family Services, Inc.	136,000	70,000
Wayne State University	65,000	100,000
Total evidence-based practices programs	1,591,000	1,284,000

Ethel and James Flinn Foundation

Notes to Modified Cash Basis Financial Statements

December 31, 2017 and 2016

Note 6 - Schedule of Grants, Contracts, and Contributions (Continued)

	2017	2016
Grantmaking Opportunities		
(To improve service delivery of mental health providers)		
Adult Well-Being Services	\$ 50,000	\$ -
Association for Children's Mental Health	10,000	10,000
Blue Cross Blue Shield Foundation	-	100,000
Covenant Community Care, Inc.	50,000	-
Detroit Central City Community Mental Health	-	50,000
Genesee Health System	-	50,000
Guidance Center	-	50,000
Judson Center	-	50,000
Juvenile Assessment Center	50,000	-
LAHC - Leaders Advancing and Helping Communities	50,000	-
Luella Hannan Memorial Foundation	50,000	-
Macomb County Community Mental Health	25,000	-
Mariners Inn	30,000	-
Mental Health Association in Michigan	60,000	-
Michigan's Children	50,000	50,000
Michigan State University	-	25,000
National Alliance on Mental Health Michigan	50,000	10,000
National Alliance on Mental Health Metro	10,000	10,000
National Alliance on Mental Health Washtenaw County	10,000	10,000
Northeast Guidance Center	-	25,000
Oakland County Community Mental Health	15,000	-
Ozone House, Inc.	-	50,000
Regents of the University of Michigan	250,000	300,000
St. Joseph Mercy Oakland	-	50,000
The Jed Foundation	-	50,000
Wayne State University	-	50,000
Total grantmaking opportunities	760,000	940,000
Matching Gifts, Evaluation and Consulting Contracts, Dues, and Contributions	337,972	292,665
Total grants, contracts, and contributions	\$ 2,688,972	\$ 2,516,665

Note 7 - Cash to Accrual

The Foundation's financial statements were prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The cash to accrual adjustments that comply with GAAP are listed below:

	2017	2016
Payables - Outstanding grant commitments	\$ 820,000	\$ 871,000
Deferred compensation - Retiree health reimbursement account	61,000	46,000